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SIPDIS

SENSITIVE

STATE FOR AF/S
NSC FOR SENIOR AFRICA DIRECTOR JFRAZER
USDOC FOR 2037 DIAMOND
TREASURY FOR OREN WYCHE-SHAW
PASS USTR FLORIZELLE LISER
STATE PASS USAID FOR MARJORIE COPSON

E. O. 12958: N/A
TAGS: [ECON](#) [EINV](#) [ETRD](#) [PGOV](#) [ZI](#)
SUBJECT: Firms Wrestling, Writhing

1. (U) Summary: Rickety infrastructure, high inflation and intrusive government - the fun never stops for finance directors in Zimbabwe. It's a credit to their ingenuity that they keep their companies in business. End Summary.

2. (U) DCM Whitehead and the economic/commercial section met this week with CFOs from four firms operating here. We synopsize their remarks below:

CAPS Holdings

3. (SBU) As Zimbabwe's dominant producer/importer of pharmaceuticals, CAPS plays a vital role in Zimbabwe's health care network. However, the group treasurer told us his company has scaled back its product line from 400 to 150. By next year, he expects CAPS to sell just 75 medicines. Due to Zimbabwe's high risk factor, CAPS is under-funded and cannot borrow forex abroad. The treasurer admitted the firm has decided to violate price and forex controls, in addition to other regulations. When replenishing wholesale supplies, he stressed how difficult it has been to forecast inflation and exchange rates. Looking ahead, the company is now operating on a Z\$6,700/US\$1 exchange rate (versus the current Z\$5650:US\$1) - but this is purely guesswork.

BP

4. (SBU) Although the GOZ has recently liberalized fuel pricing, BP's finance director said it is still unable to stock its stations. The firm is selling about 20-30 percent of its historic norm. Like CAPS, BP has been unable to locate a forex source. In contrast to CAPS, however, BP is unwilling to break the law and risk adverse publicity. Still, the finance director worried that some of BP's middle-man importers evade duty taxes. He said BP's price of Z\$2,600 for leaded fuel represents a cost-recovery of US\$.43/liter, versus a US\$.60/liter tariff in South Africa. BP has stopped using Zimbabwe's pipeline to import fuel - the most cost-efficient mechanism - because the GOZ and others steal from passing supplies. Yet, he added, Zimbabwe's deteriorating roads and rails add to fuel's end-price.

Anglo-American

5. (SBU) South African giant Anglo-American once had vastly diversified holdings in Zimbabwe. Over the past two years, Anglo has divested of most assets other than platinum mine Unki, chrome producer Zimbabwe Alloys and sugar manufacturer Hippo Valley. Its stake in National Foods, for example, has dropped from 40 to 12 percent. Even though the firm passed some holdings to GOZ-affiliated indigenous businesses for 1/30th of intrinsic value, the finance director believes Anglo engendered invaluable goodwill from the GOZ. Sugar production is down 22 percent from last year, but he insisted industry was sending ample quantities to the domestic market. Since the GOZ's controlled price for sugar is one-third of the international rate, he speculated that smugglers redirect most sugar to neighboring countries, prompting the current shortage.

Windmill

6. (SBU) As Zimbabwe's largest fertilizer producer, Windmill is prohibited from selling abroad. Although the domestic price is below the international average, it has still risen 20-fold this year. Nonetheless, Windmill's finance director reports that the firm is eking out a modest profit after numerous staff lay-offs. She regrets, however, that labor negotiations consume an inordinate amount of company time and energy. Bowing to

worker demands, Windmill has begun adjusting salaries on a monthly basis. The finance director boasted that Windmill had become somewhat adept at repackaging its products to evade price controls, a practice the CAPS rep also owned up to.

Comment

[17](#). (SBU) The four finance directors we chatted with represent a mixed bag of sectors. However, they were uniformly downcast about next year's outlook. From their tales, it is hard to dispute that Zimbabwe has lost its way. A once-enviable infrastructure is in tatters. The GOZ wants more forex in country, but prohibits some highly competitive sugar and fertilizer exports. Price controls (albeit more limited than in the past) continue to foster shortages. The GOZ can no longer maintain minimal law-and-order: Anglo says diesel is routinely stolen off its train wagons, sugar off its trucks. Worse still, BP confirms that the oil pipeline sits idle because the GOZ cannot even restrain its own parastatal's thievery. Well-intentioned companies are left with little choice but to skirt the GOZ's harebrained laws (CAPS, Windmill), sell assets for a song to GOZ insiders (Anglo) or perpetually lose money (BP). With such policies in place, the economy has nowhere to go but down.

Sullivan